



MESA
PETROLEUM CO.

**MID-YEAR
REPORT
TO
STOCKHOLDERS**

Lee P.



SIX MONTHS ENDED
OCTOBER 31, 1966

to the Stockholders

Your management is pleased to report that first half results for fiscal 1967 reflect a continuation of our growth record. Gross revenue for the six months ended October 31, 1966, totaled \$1,312,000 compared with \$968,000 during the first half of the prior fiscal year. Net income for the first six months amounted to \$479,000 or 90 cents per share, compared with \$426,000 or 80 cents per share during the same period last year. Earnings for the remainder of the fiscal year are expected to continue at a record pace.

Since May 1, six gas wells which had been shut in were connected to transmission lines. Mesa presently has nineteen gross (five net) shut-in wells which will be connected during the next six months. Due primarily to connecting shut-in wells, our gas production has increased about 50 per cent since May 1. Oil revenue continues at about the same level as last year.

In the first half of fiscal 1967, Mesa's drilling activity has doubled compared with the same period a year ago. Following Mesa's policy of directing exploration efforts toward potentially high reserve projects, a larger percentage of the wells drilled this year were wildcats.

During the six months ending October 31, Mesa participated in drilling 43 wells in the United States and Canada; 18 were completed as producers and 25 were dry. Approximately 35 additional wells will be drilled by next March.

In the United States we have recently completed a gas well on wildcat acreage in Montana and confirmed the discovery with a second well. Three additional development wells will be drilled to evaluate the magnitude of this discovery. We have 6200 acres under lease around the discovery well. Mesa is active in the Lovedale Area of Harper County, Oklahoma, with four gas well completions, two dry holes, and two wells drilling. The company completed a large gas well in Hansford County, Texas with a potential of 84,000,000 cubic feet of gas per day. No further development drilling will be required on this property.

Mesa's Canadian activity continues at a rapid pace. A twenty-well development drilling program is currently underway on the Hoosier property in southwestern Saskatchewan in which Mesa owns a one-half interest. Ten of the twenty wells are now complete, including seven drilled subsequent to October 31, resulting in eight oil wells, one gas well, and one dry hole. Two rigs are currently drilling on this property. Other Canadian exploration will include seven wildcat wells scheduled for drilling during the next four months. Three of these will be in the very interesting Rainbow Lake type geological environment — two in the Mikkwa Area and one on our Ring Creek Prospect located some sixty miles southwest of Rainbow Lake. Drilling will be resumed about December 1, 1966 on the Tenneco-Altair YoYo

a-47-L well. Operations on this well were suspended last spring due to thawing conditions in northeast British Columbia. The hole will be drilled approximately 500 feet deeper to fully evaluate the Devonian reef that indicated production before operations were suspended. Two wells drilled early in 1966 on our Tenaka Prospect in northeast British Columbia encountered substantial gas flows from the Middle Devonian reef; however, mechanical problems prevented successful completion. Additional testing will be carried out on both wells when the Prophet River has frozen sufficiently to allow access into the area.

On October 31, 1966, we sold a substantial portion of our Canadian production. Consistent with Mesa's accounting policy, no gains or losses are recognized upon the sale of producing oil and gas properties. Additional production being developed on other leases will more than offset the loss of revenues from the properties sold.

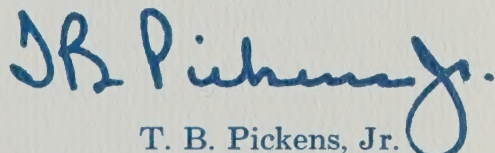
One of Mesa's more valuable assets is its undeveloped lease acreage which is now in excess of 800,000 gross acres. This acreage is primarily located in Western Canada on geological and seismic prospects developed by our exploration staff.

In future Canadian operations, the company will operate as Mesa Petroleum Co. and our wholly-owned subsidiary, Altair Oil & Gas Co., through which we have operated in the past, will be discontinued.

The Gilsonite division of Mesa continues to show improvement, particularly in production capabilities. Our original program for plant and mine improvement is now complete and substantial inventories of ore are available. Future efforts will primarily be directed toward the continued increase in sales.

The enclosed check represents a semi-annual cash dividend of \$.05 per share declared by the Board of Directors. The dividend is payable on December 15, 1966 to shareholders of record on December 2, 1966.

Sincerely,


T. B. Pickens, Jr.
President

December 15, 1966

consolidated balance sheet

(Subject to Year-End Audit)

	October 31	
	1966	1965
ASSETS		
CURRENT ASSETS:		
Cash	\$ 86,902	\$ 124,432
Receivables, prepayments, etc.	1,717,461	383,865
Inventories of oil and gas leases held for resale within one year, at cost	407,385	667,066
Total current assets	\$2,211,748	\$1,175,363
INVESTMENTS, at cost	181,456	137,167
PROPERTY, PLANT AND EQUIPMENT, at cost, less reserves of \$923,909 and \$810,539, respectively	5,516,763	4,470,072
DEFERRED CHARGES AND OTHER ASSETS	114,813	119,216
	<u>\$8,024,780</u>	<u>\$5,901,818</u>
LIABILITIES		
CURRENT LIABILITIES:		
Current maturities on long-term debt	\$ 980,000	\$ 527,078
Accounts payable and accrued liabilities ...	922,305	348,995
Total current liabilities	<u>\$1,902,305</u>	<u>\$ 876,073</u>
LONG-TERM DEBT, net of current maturities...	<u>\$1,692,788</u>	<u>\$1,730,703</u>
DEFERRED INCOME, from sale of production payment and deferred drilling revenue	\$ 553,540	\$ —
STOCKHOLDERS' INVESTMENT:		
Common stock, \$1 par value, authorized 1,000,000 shares; issued 533,308 shares ..	\$ 533,308	\$ 533,308
Capital surplus	1,837,314	1,941,128
Reinvested earnings ...	1,526,095	820,606
	<u>\$3,896,717</u>	<u>\$3,295,042</u>
Less — Treasury stock, 1,316 shares, at cost..	20,570	—
	<u>\$3,876,147</u>	<u>\$3,295,042</u>
	<u>\$8,024,780</u>	<u>\$5,901,818</u>

consolidated statement of income

(Subject to Year-End Audit)

Six Months Ended
October 31

	1966	1965	1964
REVENUES	\$1,312,260	\$967,795	\$734,557
CASH EXPENSES:			
Cost of opera- tions	\$292,560	\$148,496	\$133,773
Administrative and general ..	257,565	185,901	160,499
Interest	90,640	48,416	49,414
	<u>\$640,765</u>	<u>\$382,813</u>	<u>\$343,686</u>
Income before de- preciation and amortization..	\$671,495	\$584,982	\$390,871
DEPRECIATION AND AMORTI- ZATION (Note 1)	<u>192,000</u>	<u>158,715</u>	<u>150,000</u>
Net income (Note 2)	<u>\$479,495</u>	<u>\$426,267</u>	<u>\$240,871</u>
Shares outstand- ing	531,992	533,308	420,052
Earnings per share	\$.90	\$.80	\$.57
Cash flow per share	\$ 1.26	\$ 1.10	\$.93

NOTES:

(1) ACCOUNTING POLICY RELATING TO OIL AND GAS PROPERTIES —

The company and its subsidiaries follow the accounting policy, generally known as full cost accounting, of capitalizing, for financial reporting purposes, all direct costs incurred in the acquisition, exploration, and development of gas and oil reserves, including unproductive wells. Such capitalized costs are being amortized on a company-wide composite unit-of-production method over the aggregate productive life of all of its producing properties. Under this method of accounting, no gains or losses are recognized upon the sale or disposition of oil or gas properties, except in extraordinary circumstances.

(2) FEDERAL INCOME TAXES —

No provision has been made for Federal or Canadian income taxes inasmuch as allowable income tax deductions for intangible drilling and development costs, statutory depletion and tax loss carry-forwards are in excess of the net income reflected in the above consolidated statement of income.

AR15 directors

LAWTON L. CLARK	Calgary, Alberta
JESS B. LATHAM, JR.	Amarillo, Texas
*WALES H. MADDEN, JR.	Amarillo, Texas
DON S. MARSALIS	Amarillo, Texas
*JOHN G. O'BRIEN	Amarillo, Texas
*T. B. PICKENS, JR.	Amarillo, Texas
HOWARD F. SAUNDERS	Amarillo, Texas
HOLLAND E. TOLES	Tulia, Texas
JOHN P. TURNER	Montclair, N. J.
R. E. WOLF	Calgary, Alberta
THOMAS R. YOUNG	Riverside, Connecticut

* Member of Executive Committee

officers

T. B. PICKENS, JR.	President
LAWTON L. CLARK	Vice President
R. E. WOLF	Vice President
JOHN F. BOROS	Sec.-Treasurer

transfer agent

THE FIRST NATIONAL BANK OF AMARILLO,
AMARILLO, TEXAS

OFFICES

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